Federal Public Housing Programs Are Overhauled

The major story in Federal housing programs for 1999 is the dramatic change in HUD's public housing and other housing programs. These programs are quite important in providing housing assistance for low-income rural and urban families. The changes generally increase program flexibility for local housing authorities, while introducing incentives for tenants to work.

Three Federal agencies provide significant housing assistance in rural areas: the Department of Agriculture (USDA), the Department of Housing and Urban Development (HUD), and the Department of Veterans Affairs (VA). Although HUD has the largest housing budget of the three, USDA's programs are targeted more toward rural areas; hence, they take on a greater significance in rural areas.

Little Change in Homeownership Programs

USDA's Rural Housing Service (RHS) administers rural housing programs. It provides most direct mortgage lending in rural areas through its section 502 single-family housing program, which offers subsidized-interest loans to low-income and very-low-income families. The amount of lending under this program increased from $0.7 billion in 1997 to $1 billion in 1998 (all references are to fiscal years). A 4-percent decline is expected in this program's lending in 1999 (table 1).

USDA's less costly section 502 loan guarantee program insures market interest rate mortgages from private sector lenders. Families participating in this program usually have higher incomes than do direct borrowers, and pay mortgage insurance fees that cover a substantial portion of the program's loan losses and operating costs. The level of loans guaranteed depends on demand for the program, but it is usually near the authorized loan limit. Last year, the loan guarantee level increased markedly with the upturn in new home construction, financing $2.8 billion in rural (and suburban) homes in 1998, up from $2 billion in 1997. USDA expects to finance $3 billion in 1999.

Smaller RHS homeownership programs include very-low-income home repair loans and grants, self-help housing loans, and self-help housing technical assistance grants. Budget authority for these programs totals $57 million in 1999, down from $61 million in 1998.

The Federal Housing Administration (FHA) administers HUD's largest homeownership program. FHA's single-family home mortgage insurance program (the Mutual Mortgage Insurance Fund) provided over $90 billion of mortgage insurance in fiscal year 1998, up from $75 billion in 1997. Since 1998 was a near record year for home sales and mortgage originations, the projected 1999 level of $86 billion is somewhat lower. Only 6 percent of the amount insured in fiscal year 1997 was in nonmetro areas. These nonmetro loans were concentrated in the West and in counties that were more urbanized.

The nonmetro aid distributions of FHA and RHS programs were quite different, with the RHS section 502 program varying little by rurality level and FHA assistance considerably lower in the more rural counties. Totally rural counties not adjacent to a metro area had only $25 of FHA loans per capita compared with $99 for the most urbanized adjacent counties and $264 for metro areas.

One significant change for HUD's mortgage program is the increase in the maximum size of FHA loans. Legislation in 1998 increased this amount from $86,301 to $109,032 (in high-cost areas, the limit increased from $170,362 to $197,620). This increase would enable more people to purchase homes with FHA's insurance, and could change the geographic distribution of these loans. These higher income limits also apply to the RHS section 502 guarantee program. This legislation also allows FHA to increase the maximum adjustable-rate mortgage share of FHA's home loans up to 40 percent, and modifies the reverse mortgage program to facilitate more use of equity lines of credit and provide certain consumer protections to elderly borrowers. Consumer protection is also behind the requirement that all homes, other than those newly constructed, must be inspected before FHA can approve a loan.

Table 1
Federal funding for selected housing programs by fiscal year
Projected levels of some Federal housing loan programs are up in 1999; others are down

Program	1998 actual	1999 estimate	Change	Rural areas most affected by the program[1]
	Billion dollars		Percent	
HUD State/small cities community development block grants	1.26	1.27	1	Small towns and rural areas in farm and poverty States
USDA/RHS:				
Single-family (sec. 502) direct loans	1.00	.96	-4	West and Midwest, and retirement counties[2]
guarantees	2.82	3.00	6	Included above[2]
Multifamily (sec. 515)	.15	.11	-27	South, West, farming, and poverty counties
Rental assistance	.54	.58	7	Totally rural and poverty counties
VA:				
Loan guarantees	39.86	32.63	-18	West, urbanized nonmetro, and retirement counties
HUD:				
FHA single-family mortgage insurance	90.51	86.39	-5	West, and urbanized nonmetro counties
Section 8 public housing	16.83	19.99	19	Northeast, nonadjacent, and urbanized nonmetro

Note: HUD = U.S. Department of Housing and Urban Development; USDA/RHS = U.S. Department of Agriculture, Rural Development, Rural Housing Service; VA = U.S. Department of Veterans Affairs; FHA = Federal Housing Administration.
[1]Rural area definitions are explained in the appendix.
[2]Information on loan distribution combines direct and guaranteed loans in a single category.
Source: *Budget of the United States Government, Fiscal Year 2000*.

Like the other major housing loan-guarantee programs, VA's guarantee program financed a growing volume of loans in 1998, but this volume is projected to decline in 1999. The decline, however, is greater than that for other such programs, falling 18 percent to $32 billion because of a reduction in budget authority.

In fiscal year 1997, about 12 percent of VA's housing program activity was in nonmetro areas. Rural areas received over $21 per capita of such VA loans, slightly more than half of that received by urban areas. VA nonmetro loan levels were highest in the most urban and adjacent counties ($34) and lowest in the most rural and nonadjacent counties ($10). By region, nonmetro lending was highest in the West ($36) and lowest in the Midwest ($15).

More Changes in Rental and Public Housing Programs

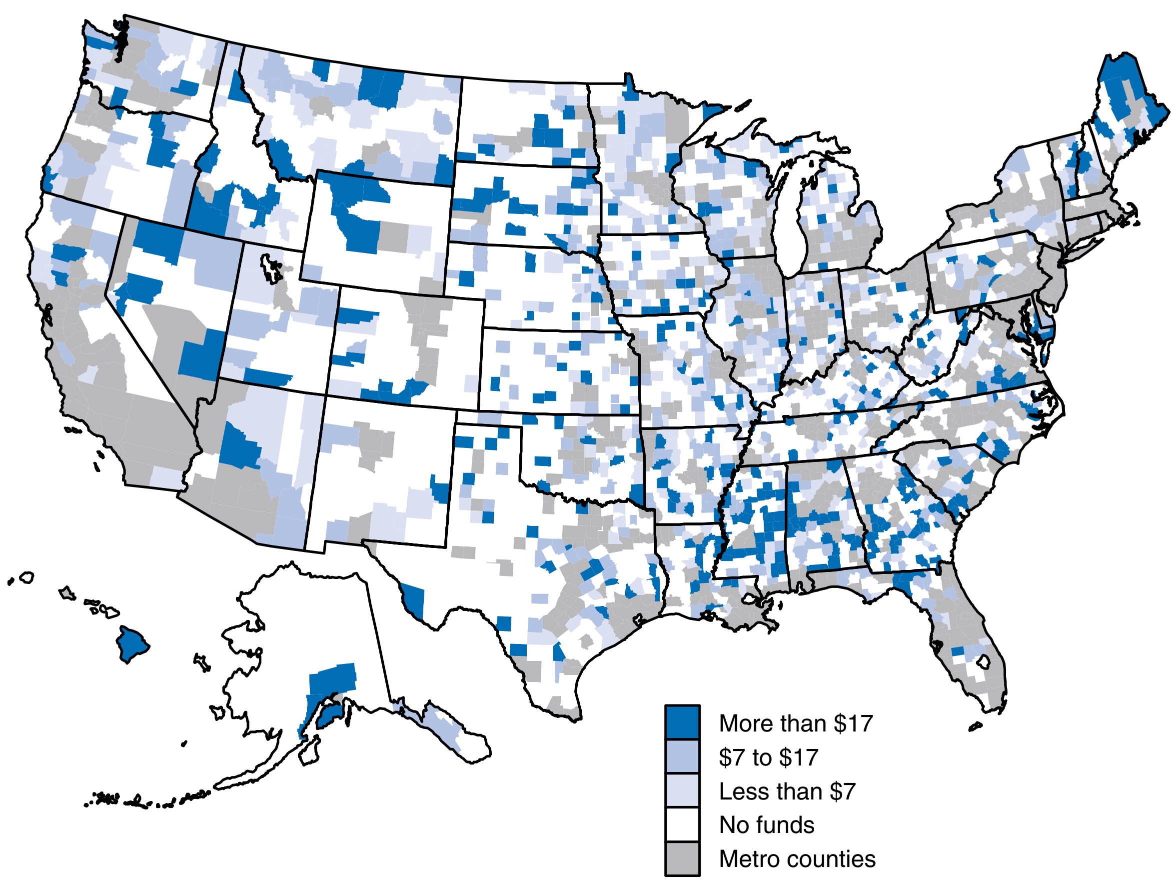
USDA's rental assistance program benefits very-low- and low-income tenants in RHS-financed rental housing. This program pays to the landlord the difference between market rent and the tenant's payment of 30 percent of income. In 1999, this program is expected to increase by about 7 percent, totaling $583 million. Because these are grants, rather than loans, this program is more costly than RHS's other programs, representing two-thirds of the total RHS budget authority, excluding costs for salaries and expenses. Hence, the increase in funding for this program is substantial and results in an overall increase in RHS's budget. This assistance is widely scattered, geographically, with concentrations in the Southeast, parts of the West, the Northern Plains, and New England (fig. 1).

RHS's section 515 multifamily rental housing program benefits very-low- and low-income tenants by providing loans and guarantees for the construction, purchase, rehabilitation, or repair of low-income rental housing. Over two-thirds of such RHS assistance went to nonmetro areas. While funding for the section 515 program declined in 1999, 1998 legislation gave it permanent authorization. For several years the annual budget bill has reauthorized section 515 for a year at a time. Direct loans (section 515) are expected to fall to $114 million in 1999, a 27-percent decline. USDA's other multifamily housing program (section 538) benefits somewhat higher income tenants (up to 115 percent of median

Figure 1

USDA rural rental assistance payments per capita, fiscal year 1997

Highest payments are in the Blackbelt in the Southeast and in parts of the West, the Northern Plains, and New England



Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

area income). This guaranteed loan program is projected to almost double its volume of guarantees, rising to $75 million in 1999.

RHS also has a farm-labor housing program, which will issue about $20 million in loans (up from $15 million) and $11 million in grants (down from $13 million) in 1999.

HUD's rental housing programs are much larger than USDA's. In 1999, HUD's assisted housing programs had a budget authority of about $20 billion, including $5.8 billion for operating and capital funds and $14.2 billion for subsidized, public, homeless, Indian, and other HUD housing assistance. The $20 billion total represents a 19-percent increase over 1998.

HUD's public housing programs primarily benefit urban areas, but rural areas also receive a substantial amount of this assistance. In fiscal year 1996, expenditures on HUD's major public housing programs were about $6.2 billion, which was $23 per capita nationally and $18 in rural areas. On a per capita basis, rural counties with higher funding levels were more often in the West, were isolated from metro centers, or contained Indian reservations.

HUD's Public Housing Programs Will Be Overhauled in 1999

One of the biggest stories of 1998 was the legislation that reformed HUD's public housing and other low-income housing programs. Supported by most House and Senate members and the Administration, the Quality Housing and Work Responsibility Act of 1998 (QHWRA) (Public Law 105-276) culminates nearly 2 years of intense negotiations. While the Act's effective date is October 1, 1999, many changes will be made earlier as regulations are finalized, while changes considered "self-implementing" were made effective by a February 18, 1999, *Federal Register* notice.

In general, housing authorities will now receive their funds in two block-grants, one for capital expenditures and the other for operating expenses. Local housing authorities are given much greater flexibility to design appropriate approaches. Provisions also address some of the negative elements that have long been associated with public housing, such as the heavy concentration of the lowest income families in public housing projects.

The affected programs are quite important to rural America, although, on a per capita basis, they provide more assistance to urban areas. Nonmetro communities received $0.5 billion for public and Indian housing in 1997 and another $2.5 billion for section 8 rental assistance. The larger umbrella of section 8 activities provided lower income housing assistance to most rural counties, with concentrations in the southern Mississippi Delta, the Northern Plains, the Southwest, Northwest, and the Appalachian and Rocky Mountains (fig. 2).

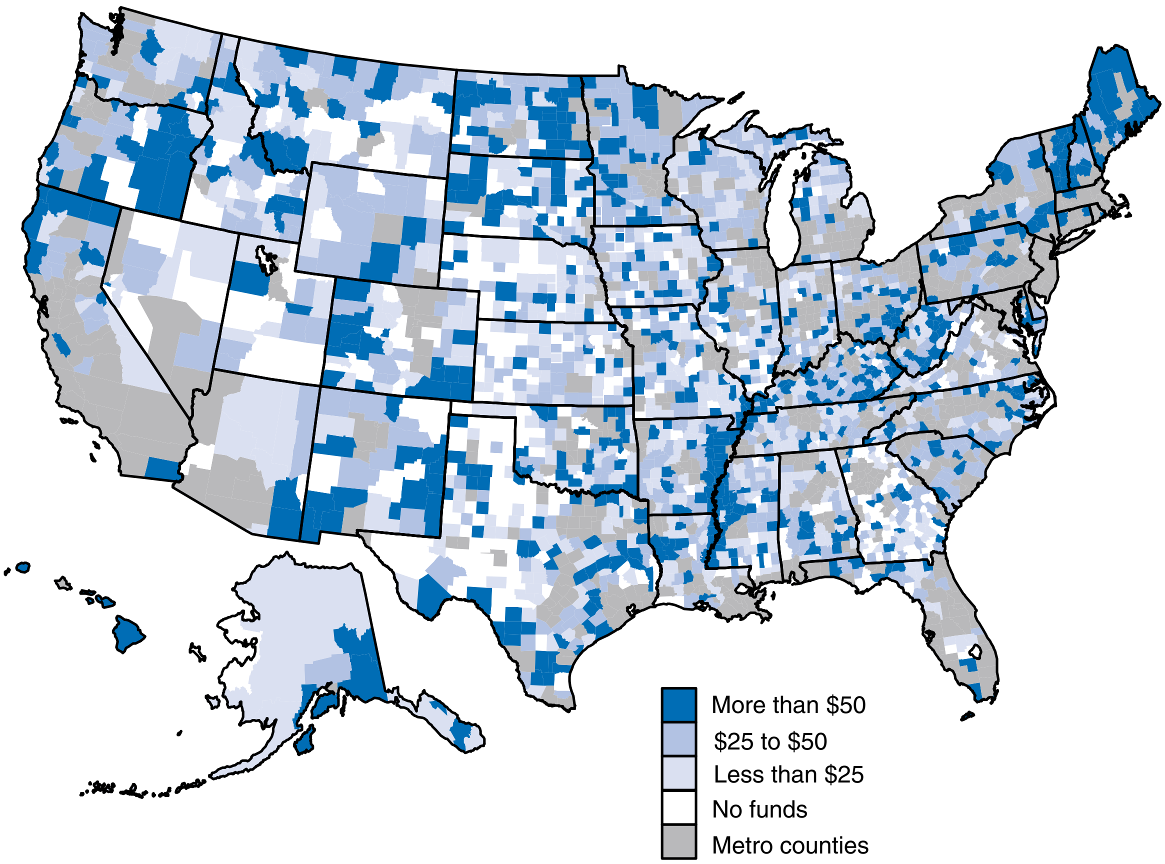
Housing authorities designated by HUD as "troubled" must improve their performance or be taken over by HUD or an appointed receiver. A mandated study will evaluate the appropriateness of current evaluation standards for housing authorities, alternative performance measures, and the desirability of independent accreditation. A demonstration program also allows for 100 local governments to develop their own low-income housing programs, if the local housing authority's performance, as measured by current evaluation standards, ranks them in the lower 40 percent of all housing authorities. Funding would be provided by redirecting grants that would otherwise go to the local housing authority.

Rents of most public housing tenants have long been set at 30 percent of income, providing a disincentive for tenants to work. New rules will allow tenants to annually choose either an income-based rent (no more than 30 percent of income) or a flat rate that is the unit's rental value. Tenants can switch from a flat to income-based rent if experiencing financial hardship. Income from employment must be disregarded for at least 12 months when calculating income-based rent. Then it will be phased into the rent basis over another 2 years. Decreased welfare assistance that results from a failure to comply with program requirements will not reduce income-based rent. Housing authorities must set minimum rents up to $50 on all units, but hardship exemptions are allowed. Each adult resident of a public housing unit must contribute 8 hours of public service work each month. There are a num-

Figure 2

HUD section 8 lower income housing assistance per capita, fiscal year 1997

Most rural counties benefit from section 8 programs



Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

ber of exceptions to the public service work requirement, including individuals age 62 or older, those with a disability, and those complying with welfare program requirements.

Current law requires that nationally 75 percent of units in public housing available before October, 1981 (the majority of all public housing), 85 percent of public housing first available at a later date, and all housing vouchers must go to tenants with no more than 50 percent of area median income. QHWRA requires that each housing authority rent at least 40 percent of available units to families with no more than 30 percent of area median income. The housing authority can lower this 40-percent requirement to 30 percent by increasing the share of section 8 vouchers going to this low-income population. Referred to as "fungibility," providing vouchers in place of public housing units is allowed only when the result is greater income diversity in the affected public housing project and less concentration of low-income families in certain housing projects.

Each public housing organization must have a person receiving housing assistance on its governing board. And a representative resident advisory board must be consulted by the housing authority in developing mandatory 1-year and 5-year plans. When provided for by their housing authority, up to 50,000 families nationally will be able to use their section 8 vouchers—generally used to pay rent—to make payments on a home that they are purchasing. Many other QHWRA provisions reduce past restrictions, such as the nowremoved requirement that housing authorities replace every lost public housing unit one-to-one with another unit.

Also authorized in HUD's 1999 budget is a new Office of Rural Housing and Economic Development. First-year program funding of $25 million is to be split between capacity building ($4 million) and innovative housing and economic development activities ($21 million). This new office is discussed in more detail in the General Assistance article.
[Jim Mikesell, 202-694-5432, mikesell@econ.ag.gov, and Rick Reeder, 202-694-5360, rreeder@econ.ag.gov]